

CITY OF VICTORIA, KANSAS

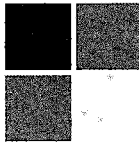
Financial Statements With Independent Auditors' Report

For the Year Ended December 31, 2011

CITY OF VICTORIA, KANSAS
Financial Statements With Independent Auditors' Report
For the Year Ended December 31, 2011

TABLE OF CONTENTS

Independent Auditors' Report.....	1
Statement 1 - Summary of Cash Receipts, Expenditures, and Unencumbered Cash.....	2
Statement 2 - Summary of Expenditures – Actual and Budget.....	3
Statement 3 - Statement of Cash Receipts and Expenditures – Actual and Budget Individually Presented by Fund	
Governmental Fund Categories	
General Fund	
3-1 General Fund	4
Special Revenue Funds	
3-2 Employee Benefit Fund	7
3-3 Special Highway Fund.....	8
3-4 Special Machinery Fund.....	9
3-5 Special Park and Recreation Fund.....	10
3-6 Equipment Reserve Fund.....	11
3-7 Capital Improvements Fund	12
Capital Project Funds	
3-8 Water Line Replacement Fund	13
3-9 CDBG Water Project Fund.....	14
Debt Service Fund	
3-10 Bond and Interest Fund	15
Proprietary Fund Category	
Enterprise Funds	
3-11 Water Utility Fund.....	16
3-12 Sewer Utility Fund	17
3-13 Refuse Utility Fund.....	18
Notes to Financial Statements.....	19



Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Victoria, Kansas
Victoria, Kansas

We have audited the accompanying financial statements of **City of Victoria, Kansas**, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of **City of Victoria, Kansas'** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, **City of Victoria, Kansas** has prepared these financial statements using accounting practices prescribed or permitted by the State of Kansas, whose practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of **City of Victoria, Kansas**, as of December 31, 2011, or the changes in its financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each fund of **City of Victoria, Kansas**, as of December 31, 2011, and their respective cash receipts and disbursements and budgetary results for the year then ended, on the basis of accounting described in Note 1.

Adams, Brown, Beran & Ball

ADAMS, BROWN, BERAN & BALL, CHTD.
Certified Public Accountants

October 15, 2012

CITY OF VICTORIA, KANSAS
Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2011

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Fund Categories							
General Fund							
General Fund	\$ 335,189	-	496,558	470,121	361,626	13,707	375,333
Special Revenue Funds							
Employee Benefit Fund	10,870	-	63,477	69,564	4,783	-	4,783
Special Highway Fund	1,659	-	32,794	29,621	4,832	4,396	9,228
Special Machinery Fund	70,791	-	-	-	70,791	-	70,791
Special Park and Recreation Fund	10,179	-	-	-	10,179	-	10,179
Equipment Reserve Fund	38,508	-	74,000	69,746	42,762	-	42,762
Capital Improvements Fund	219,337	-	92,000	58,245	253,092	-	253,092
Debt Service Fund							
Bond and Interest Fund	25,573	-	51,400	55,538	21,435	-	21,435
Proprietary Fund Category							
Enterprise Funds							
Water Utility Fund	59,173	-	238,462	194,169	103,466	5,113	108,579
Sewer Utility Fund	127,923	-	104,817	139,328	93,412	3,861	97,273
Refuse Utility Fund	37,241	-	97,656	123,477	11,420	3,956	15,376
Total Reporting Entity	\$ 936,443	-	1,251,164	1,209,809	977,798	31,033	1,008,831
Composition of Cash							
					Checking Accounts	\$	720,209
					Money Market Accounts		39,131
					Certificates of Deposit		249,491
					Total Reporting Entity	\$	1,008,831

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Summary of Expenditures - Actual and Budget
For the Year Ended December 31, 2011

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
Governmental Fund Categories					
General Fund					
General Fund	\$ 589,540	-	589,540	470,121	(119,419)
Special Revenue Funds					
Employee Benefit Fund	70,000	-	70,000	69,564	(436)
Special Highway Fund	36,245	-	36,245	29,621	(6,624)
Special Park and Recreation Fund	5,746	-	5,746	-	(5,746)
Debt Service Fund					
Bond and Interest Fund	70,538	-	70,538	55,538	(15,000)
Proprietary Fund Category					
Enterprise Funds					
Water Utility Fund	175,288	-	175,288	194,169	18,881
Sewer Utility Fund	222,342	-	222,342	139,328	(83,014)
Refuse Utility Fund	115,174	-	115,174	123,477	8,303

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
General Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes				
Ad Valorem	\$ 271,328	274,998	277,079	(2,081)
Delinquent	5,309	3,325	-	3,325
Motor Vehicle	41,678	36,440	34,017	2,423
Total Taxes	318,315	314,763	311,096	3,667
Intergovernmental				
Local Sales Tax	78,104	93,657	50,000	43,657
Licenses and Permits				
Zoning Fees	180	60	-	60
Franchise Fees	69,764	71,942	30,000	41,942
Licenses and Permits	4,009	5,056	3,000	2,056
Total Licenses and Permits	73,953	77,058	33,000	44,058
Fines and Forfeitures				
Fines	3,165	1,954	2,000	(46)
Use of Money and Property				
Interest	823	632	4,000	(3,368)
Swimming Pool	4,693	4,470	4,000	470
Miscellaneous	5,879	4,024	-	4,024
Total Use of Money and Property	11,395	9,126	8,000	1,126
Total Cash Receipts	484,932	496,558	404,096	92,462
Expenditures				
General Government				
Personal Services	23,817	23,170	25,000	(1,830)
Commodities	8,488	7,940	15,000	(7,060)
Contractual Services	38,718	23,785	25,000	(1,215)
Capital Outlay	-	961	4,000	(3,039)
Total General Government	\$ 71,023	55,856	69,000	(13,144)

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
General Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Expenditures (continued)				
Police Department				
Personal Services	\$ 105,015	102,391	110,000	(7,609)
Commodities	13,226	20,288	12,000	8,288
Contractual Services	7,306	8,480	12,000	(3,520)
Capital Outlay	5,840	94	7,000	(6,906)
Total Police Department	131,387	131,253	141,000	(9,747)
Fire Department				
Personal Services	10,490	8,685	12,000	(3,315)
Commodities	9,920	4,222	8,000	(3,778)
Contractual Services	6,915	2,583	5,000	(2,417)
Capital Outlay	5,305	201	5,000	(4,799)
Total Fire Department	32,630	15,691	30,000	(14,309)
Park Department				
Personal Services	19,328	16,916	22,000	(5,084)
Commodities	2,484	3,831	4,000	(169)
Contractual Services	1,286	804	1,500	(696)
Capital Outlay	318	797	3,000	(2,203)
Total Park Department	23,416	22,348	30,500	(8,152)
Street Department				
Personal Services	13,709	8,863	14,000	(5,137)
Commodities	1,809	1,157	6,000	(4,843)
Contractual Services	2,206	1,122	12,000	(10,878)
Capital Outlay	-	-	35,000	(35,000)
Total Street Department	17,724	11,142	67,000	(55,858)
Street Lighting				
Contractual Services	15,949	17,523	22,000	(4,477)
Pool Department				
Personal Services	15,572	15,820	16,000	(180)
Commodities	4,373	5,969	8,000	(2,031)
Contractual Services	2,162	296	2,500	(2,204)
Capital Outlay	-	3,398	2,000	1,398
Total Pool Department	\$ 22,107	25,483	28,500	(3,017)

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
General Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Expenditures (continued)				
Planning Commission				
Personal Services	\$ 2,097	2,142	2,000	142
Commodities	-	-	500	(500)
Contractual Services	172	361	500	(139)
Total Planning Commission	2,269	2,503	3,000	(497)
Victoria Health Facility	18,438	15,782	26,000	(10,218)
Herzogfest	1,500	1,500	1,500	-
Industrial Development	1,000	1,000	1,000	-
Senior Companion	-	4,040	4,040	-
Transfers Out	99,000	166,000	166,000	-
Total Expenditures	436,443	470,121	589,540	(119,419)
Cash Receipts Over (Under) Expenditures	48,489	26,437		
Unencumbered Cash - Beginning	286,700	335,189		
Unencumbered Cash - Ending	\$ 335,189	361,626		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Employee Benefit Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes				
Ad Valorem	\$ 58,656	55,227	55,641	(414)
Delinquent	1,064	680	-	680
Motor Vehicle	8,003	7,570	7,353	217
Miscellaneous	214	-	-	-
Total Cash Receipts	67,937	63,477	62,994	483
Expenditures				
Personal Services	64,494	69,564	70,000	(436)
Cash Receipts Over (Under) Expenditures	3,443	(6,087)		
Unencumbered Cash - Beginning	7,427	10,870		
Unencumbered Cash - Ending	\$ 10,870	4,783		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Special Highway Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance Over (Under)
Cash Receipts				
Intergovernmental				
State Gasoline Tax	\$ 32,213	31,433	32,880	(1,447)
Reimbursements	-	1,361	-	1,361
Total Cash Receipts	32,213	32,794	32,880	(86)
Expenditures				
Personal Services	15,092	14,524	10,000	4,524
Commodities	5,482	3,138	5,000	(1,862)
Contractual Services	12,859	10,957	3,896	7,061
Capital Outlay	-	1,002	9,129	(8,127)
Transfers Out	-	-	8,220	(8,220)
Total Expenditures	33,433	29,621	36,245	(6,624)
Cash Receipts Over (Under) Expenditures	(1,220)	3,173		
Unencumbered Cash - Beginning	2,879	1,659		
Unencumbered Cash - Ending	\$ 1,659	4,832		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Special Machinery Fund
 Statement of Cash Receipts and Expenditures
 For the Year Ended December 31, 2011
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
	<u> </u>	<u> </u>
Cash Receipts	\$ -	-
Expenditures	<u>-</u>	<u>-</u>
Cash Receipts Over (Under) Expenditures	-	-
Unencumbered Cash - Beginning	<u>70,791</u>	<u>70,791</u>
Unencumbered Cash - Ending	\$ <u><u>70,791</u></u>	<u><u>70,791</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Special Park and Recreation Fund
 Statement of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2011
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts	\$ -	-	-	-
Expenditures				
Capital Outlay	-	-	5,746	(5,746)
Cash Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash - Beginning	10,179	10,179		
Unencumbered Cash - Ending	\$ 10,179	10,179		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Equipment Reserve Fund
 Statement of Cash Receipts and Expenditures
 For the Year Ended December 31, 2011
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfers In	\$ 25,000	74,000
Expenditures		
Capital Outlay	50,151	69,746
Cash Receipts Over (Under) Expenditures	(25,151)	4,254
Unencumbered Cash - Beginning	63,659	38,508
Unencumbered Cash - Ending	\$ 38,508	42,762

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Capital Improvements Fund
 Statement of Cash Receipts and Expenditures
 For the Year Ended December 31, 2011
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfers In	\$ 74,000	92,000
State Grant	9,284	-
Total Cash Receipts	83,284	92,000
Expenditures		
Capital Outlay	3,884	58,245
Cash Receipts Over (Under) Expenditures	79,400	33,755
Unencumbered Cash - Beginning	139,937	219,337
Unencumbered Cash - Ending	\$ 219,337	253,092

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Water Line Replacement Fund
 Statement of Cash Receipts and Expenditures
 For the Year Ended December 31, 2011
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Loan Proceeds	\$ 396,292	-
Expenditures		
Contractual Services	396,292	-
Cash Receipts Over (Under) Expenditures	-	-
Unencumbered Cash - Beginning	-	-
Unencumbered Cash - Ending	\$ -	-

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
CDBG Water Project Fund
 Statement of Cash Receipts and Expenditures
 For the Year Ended December 31, 2011
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Grant	\$ 493,000	-
Expenditures		
Contractual Services	493,000	-
Cash Receipts Over (Under) Expenditures	-	-
Unencumbered Cash - Beginning	-	-
Unencumbered Cash - Ending	\$ -	-

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS

Bond and Interest Fund

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2011

(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes				
Ad Valorem	\$ 44,419	32,264	32,505	(241)
Delinquent	1,074	526	-	526
Motor Vehicle	5,968	5,710	5,568	142
Special Assessments	16,449	12,513	12,150	363
Interest	-	387	-	387
Total Cash Receipts	<u>67,910</u>	<u>51,400</u>	<u>50,223</u>	<u>1,177</u>
Expenditures				
Principal	45,000	45,000	45,000	-
Interest	12,547	10,538	10,538	-
Cash Basis Reserve	-	-	15,000	(15,000)
Total Expenditures	<u>57,547</u>	<u>55,538</u>	<u>70,538</u>	<u>(15,000)</u>
Cash Receipts Over (Under) Expenditures	10,363	(4,138)		
Unencumbered Cash - Beginning	<u>15,210</u>	<u>25,573</u>		
Unencumbered Cash - Ending	\$ <u>25,573</u>	<u>21,435</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Water Utility Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Water Sales	\$ 152,255	208,932	131,500	77,432
Special Assessments	16,873	17,005	17,000	5
Water Taps	-	350	500	(150)
Late Charges	3,897	3,754	1,100	2,654
Interest	2,289	1,190	1,000	190
Water Protection Fee	1,158	1,320	1,200	120
Federal Aid	-	2,000	-	2,000
Miscellaneous	3,827	3,911	-	3,911
Total Cash Receipts	<u>180,299</u>	<u>238,462</u>	<u>152,300</u>	<u>86,162</u>
Expenditures				
Personal Services	75,578	77,353	75,000	2,353
Commodities	49,602	62,412	35,000	27,412
Contractual Services	15,849	18,182	22,288	(4,106)
Capital Outlay	9,231	-	18,000	(18,000)
Revolving Loan Payments	3,322	36,222	25,000	11,222
Total Expenditures	<u>153,582</u>	<u>194,169</u>	<u>175,288</u>	<u>18,881</u>
Cash Receipts Over (Under) Expenditures	26,717	44,293		
Unencumbered Cash - Beginning	<u>32,456</u>	<u>59,173</u>		
Unencumbered Cash - Ending	\$ <u>59,173</u>	<u>103,466</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Sewer Utility Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Sewer Service Charges	\$ 106,673	104,164	120,000	(15,836)
Miscellaneous	1,350	653	-	653
Total Cash Receipts	<u>108,023</u>	<u>104,817</u>	<u>120,000</u>	<u>(15,183)</u>
Expenditures				
Personal Services	37,141	45,259	35,000	10,259
Commodities	7,589	18,627	20,000	(1,373)
Contractual Services	2,713	4,132	10,000	(5,868)
Capital Outlay	-	-	86,032	(86,032)
Revolving Loan Principal	47,241	48,857	48,857	-
Revolving Loan Interest	22,293	20,797	20,797	-
Revolving Loan Service Fees	1,775	1,656	1,656	-
Total Expenditures	<u>118,752</u>	<u>139,328</u>	<u>222,342</u>	<u>(83,014)</u>
Cash Receipts Over (Under) Expenditures	(10,729)	(34,511)		
Unencumbered Cash - Beginning	<u>138,652</u>	<u>127,923</u>		
Unencumbered Cash - Ending	\$ <u>127,923</u>	<u>93,412</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Refuse Utility Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Refuse Charges	\$ 93,933	<u>97,656</u>	<u>96,000</u>	<u>1,656</u>
Expenditures				
Personal Services	48,196	<u>49,914</u>	40,000	9,914
Commodities	4,810	<u>11,938</u>	5,000	6,938
Contractual Services	45,449	<u>45,715</u>	50,000	(4,285)
Capital Outlay	3,584	<u>15,910</u>	<u>20,174</u>	<u>(4,264)</u>
Total Expenditures	<u>102,039</u>	<u>123,477</u>	<u>115,174</u>	<u>8,303</u>
Cash Receipts Over (Under) Expenditures	(8,106)	<u>(25,821)</u>		
Unencumbered Cash - Beginning	<u>45,347</u>	<u>37,241</u>		
Unencumbered Cash - Ending	\$ <u>37,241</u>	<u>11,420</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Victoria, Kansas has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The accompanying financial statements are presented to conform to the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

Reporting Entity

The City is a municipal corporation governed by an elected mayor and five-member council. The financial statements of the City consist of all the funds of the City that are considered to be controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board. The City has no component units.

Use of Estimates

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect the reported amount of unencumbered cash balances and accounts payable during the reporting period. Actual results could differ from these estimates.

Basis of Presentation – Fund Accounting

The accounts of the City are organized and operated on the basis of funds. In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The following categories of funds comprise the financial activities of the City for the year ended December 31, 2011.

Governmental Fund Categories

General Fund – to account for all financial resources except those required to be reported in another fund.

Special Revenue Funds – to account for the proceeds of specific revenue sources that are legally restricted to expenditure for a specified purpose.

Debt Service Fund – to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Project Funds – to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Fund Category

Enterprise Funds – to account for operations that are financed and operated in a manner similar to private business enterprises where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

Departure From Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, and temporary notes are not presented in the financial statements.

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget.

- a. Preparation of the budget for the succeeding calendar year on or before August 1st.
- b. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
- c. Public hearing on or before August 15th, but at least 10 days after publication of notice of hearing.
- d. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least 10 days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no budget amendments this year.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the City for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital project funds, fiduciary funds, permanent funds, and the following special revenue funds: Special Machinery Fund, Equipment Reserve Fund, and Capital Improvements Fund.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Deposits and Investments

The City follows the practice of pooling cash and investments of all funds. Each fund's portion of total cash and investments is summarized by fund category in the summary of cash receipts, expenditures, and unencumbered cash.

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City had no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City did not use "peak periods" during 2011. All deposits were legally secured at December 31, 2011.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

At December 31, 2011, the City's carrying amount of deposits was \$1,008,831 and the bank balance was \$1,012,671. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$660,593 was covered by federal depository insurance and \$352,078 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments of collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The City had no investments at December 31, 2011.

Compensated Absences

Vacation

The City's policy regarding vacation is that an employee must work for a period of 1 year before any vacation is accumulated at which time the employee is then allowed 10 working days. After 5 years, 1 day is accumulated for each year of service up to a maximum of 24 days. As of December 31, 2011, the maximum potential liability for accrued vacation was \$16,186.

Sick Leave

The policy regarding sick leave is that an employee can accumulate 120 days of sick leave at 12 days a year. Any accumulation is canceled upon termination of employees with less than five years of service. All full-time employees who have completed five years or more of employment will be paid for sick leave on a graduated scale to a maximum of \$2,400 after 26 years of employment. As of December 31, 2011, the potential liability for sick leave was \$2,784.

Deferred Compensation Plan

The City sponsors a deferred compensation plan under Internal Revenue Code Section 457(b). Permanent and part-time employees are eligible to participate under the plan. The employee is responsible for the amount of deferred compensation to be contributed. The City is not required to make any contributions.

Defined Benefit Pension Plan

Plan Description

The City contributes to the Kansas Public Employees Retirement System (KPERS) and the Kansas Police and Firemen's Retirement System (KP&F). Both are cost-sharing multiple-employer defined benefit pension plans as provided by K.S.A. 74-4901, *et seq.* KPERS and KP&F provide retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERS and KP&F issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S Kansas, Suite 100; Topeka, KS 66603-3869) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% and 6% (if hired on or after July 1, 2009) of covered salary. K.S.A. 74-4975 establishes the KP&F member-employee contributions rate at 7% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS and KP&F are funded on an actuarial reserve basis. State law sets a limitation on annual increases in the employer contribution rates. The KPERS employer rate established for calendar year 2011 was 7.74%. The City's employer contributions to KPERS for the years ending December 31, 2011, 2010 and 2009 were \$13,700, \$19,192, and \$9,083, respectively, equal to the required contributions for each year. The KP&F employer rate

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

established for fiscal years beginning in 2011 was 14.57%. Employers participating in KP&F also make contributions to amortize the liability for past service costs, if any, which is determined separately for each participating employer. The City's contributions to KP&F for the years ending December 31, 2011, 2010 and 2009 were \$13,993, \$0 and \$0, respectively, equal to the required contributions for each year as set forth by the legislature.

Other Post Employment Benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the City for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

Property Tax Calendar

Collection of current year property tax by the County Treasurer is not completed, apportioned nor distributed to the various subdivisions until the succeeding year, such procedure being in conformity with governing state statutes. Property taxes are collected and remitted to the County Treasurer. Taxes levied annually on November 1st are due one-half by December 20th and one-half by May 10th. Major tax distributions are made in the months of December through July. Lien dates for personal property are in March and August and lien dates for real property are in September. Taxes are recognized as revenue in the year received. Delinquent tax payments are recognized as revenue in the year received.

Special Assessments

Projects financed in part by special assessments are financed through general obligation bonds of the City and are retired from the Bond and Interest Fund. Special assessments paid prior to the issuance of bonds are recorded as revenue in the appropriate project. Special assessments received after the issuance of bonds are recorded as revenue in the Bond and Interest Fund.

Restricted Assets

Restricted cash balances are reported in various funds that are legally restricted for specified uses such as the payment of debt service and fiscal fees on long-term debt and for expenditures approved in federal and state grant contracts.

Reimbursements

The City records reimbursable expenditures (or expenses) in the fund that makes the disbursement and records reimbursement as revenue to the fund. For purposes of budgetary comparison, the expenditures (or expenses) are properly offset by the reimbursements.

NOTE 2 – INTERFUND TRANSFERS

Interfund transfers within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis as authorized by Kansas statutes. The City's interfund transfers and statutory authority for the year ended December 31, 2011 were as follows:

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 2 – INTERFUND TRANSFERS (continued)

From	To	Statutory Authority	Amount
General Fund	Capital Improvements Fund	K.S.A. 12-1,118	\$ 92,000
General Fund	Equipment Reserve Fund	K.S.A. 12-1,117	74,000

NOTE 3 – LITIGATION

City of Victoria, Kansas is party to various legal proceedings which normally occur in governmental operations. The legal proceedings are not likely to have a material adverse impact on the affected funds of the City.

NOTE 4 – RISK MANAGEMENT

City of Victoria, Kansas carries commercial insurance for risks of loss, including property, general liability, inland marine, automobile, crime, workers compensation, and linebacker. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 5 – GRANTS AND SHARED REVENUES

City of Victoria, Kansas participates in numerous state and federal grant programs, which are governed by various rules and regulations for the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the City, any liability for reimbursement, which may arise as the result of the audits, is not believed to be material.

NOTE 6 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Expenditures exceeded the adopted budget for the Refuse Utility Fund and Water Utility Fund, which are violations of K.S.A. 79-2935.

NOTE 7 – COMPARATIVE DATA

Comparative data for the prior year has been presented in Statement 3 of the accompanying financial statements in order to provide an understanding of changes in **City of Victoria, Kansas'** cash and unencumbered cash balances. However, complete comparative data (i.e., presentation of prior year totals in Statement 1) has not been presented since their inclusion would make the statement unduly complex and difficult to read.

NOTE 8 – DEBT RESTRICTIONS AND COVENANTS

KDHE Waterline Replacement Loan

City of Victoria, Kansas entered into a loan agreement with the Kansas Department of Health and Environment to fund the improvements to the waterlines in the amount of \$750,000. The loan agreement requires that the City provide for the repayment of this loan by providing dedicated funds. The City is in compliance with this requirement as of December 31, 2011 as it is providing dedicated funds through water fees.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 9 – LONG-TERM DEBT

City of Victoria, Kansas has the following types of long-term debt.

General Obligation Bonds

On October 15, 2009, **City of Victoria, Kansas** issued general obligation refunding bonds of \$415,000 (par value) with interest rates of 1.5 - 3.9% to advance refund term bonds. The Series A refunding bonds mature on December 1, 2019, and are callable on December 1, 2014. The Series A bonds were issued at a premium, and, after paying issuance costs of \$12,867, the net proceeds were \$402,233. The net proceeds from the issuance of the general obligation bonds were used to refund the 1999 Series A term bonds. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the City's financial statements. As a result of the advance refunding, the economic gain to the City (difference between the present value of the debt service payments on the old and new debt) was \$33,804.

KDHE Revolving Loans

The City entered into a \$1,043,195 revolving loan agreement on September 14, 2002 with the Kansas Department of Health and Environment acting on behalf of the State of Kansas to finance the construction of a sludge basin.

The City entered into a \$465,456 revolving loan agreement on July 29, 2009 with the Kansas Department of Health and Environment acting on behalf of the State of Kansas to finance the water line replacement project. The City uses proceeds generated by the operation of the facility for loan repayment. During 2011, the City made total repayments of \$36,222 on the loan. Of this amount, \$22,018 was principal and the rest was interest and service fees. In addition to the payment, there was principal forgiveness of \$46,386 by the Kansas Public Water Supply Loan Fund. Therefore, the remaining debt outstanding on the revolving loan was \$397,052 at December 31, 2011.

Capital Lease

The City has entered into a lease agreement with an option to purchase a fire truck at the expiration of the lease term. The lease contains a fiscal funding clause.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 9 - LONG-TERM DEBT (continued)

Changes in long-term liabilities for the City for the year ended December 31, 2011, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds										
Series 2009A Refunding	1.5% - 3.9%	10/15/09	\$ 415,000	12/01/19	\$ 370,000	-	(45,000)		325,000	10,538
KDHE Revolving Loans										
Sludge Basin Construction	Various	09/14/02	1,043,195	09/01/22	674,445	-	(48,857)		625,588	20,797
Water Line Replacement	Various	07/29/09	465,456	08/01/30	465,456	-	(68,404)		397,052	12,885
Capital Lease										
Fire Truck	5.00%	06/01/07	143,999	06/01/12	48,959	-	(23,883)		25,076	2,448
Total Long-Term Debt					\$ 1,558,860	-	(186,144)	-	1,372,716	46,668

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 9 - LONG-TERM DEBT (continued)

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	Year								
	2012	2013	2014	2015	2016	2017-2021	2022-2026	2027-2030	Total
Principal									
General Obligation Bond - Series 2009A									
Refunding	\$ 45,000	40,000	40,000	40,000	40,000	120,000	-	-	325,000
Revolving Loan - Sludge Basin Construction	50,527	52,254	54,041	55,888	57,799	320,020	35,059	-	625,588
Revolving Loan - Waterline Replacement	14,635	15,192	15,770	16,370	16,993	95,173	114,715	108,204	397,052
Capital Lease	25,076	-	-	-	-	-	-	-	25,076
Total Principal	135,238	107,446	109,811	112,258	114,792	535,193	149,774	108,204	1,372,716
Interest									
General Obligation Bond - Series 2009A									
Refunding	9,772	8,940	8,020	6,940	5,760	9,100	-	-	48,532
Revolving Loan - Sludge Basin Construction	19,250	17,650	15,996	14,284	12,515	33,834	550	-	114,079
Revolving Loan - Waterline Replacement	13,466	12,961	12,436	11,892	11,326	47,373	29,645	8,532	147,631
Capital Lease	1,254	-	-	-	-	-	-	-	1,254
Total Interest	43,742	39,551	36,452	33,116	29,601	90,307	30,195	8,532	311,496
Total Principal and Interest	\$ 178,980	146,997	146,263	145,374	144,393	625,500	179,969	116,736	1,684,212